

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**TRAVERSE COUNTY**  
**WHEATON, MINNESOTA**

YEAR ENDED DECEMBER 31, 2009

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Year Ended December 31, 2009**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2009

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Chair	Gerald Kaus	District 1	January 2011
Board Member	Kevin Leininger	District 2	January 2013
Vice Chair	David Naatz	District 3	January 2011*
Board Member	David Salberg	District 4	January 2013
Board Member	Jerry Deal	District 5	January 2011
Attorney	Matthew Franzese		January 2011
Auditor/Treasurer	Kit Johnson		January 2011
County Recorder	LeAnn Peyton		January 2011
Registrar of Titles	LeAnn Peyton		January 2011
County Sheriff	Bob Marts		January 2011
<b>Appointed</b>			
County Coordinator	Janet Raguse		Indefinite
Assessor	Lois Sumerfelt		March 2010
County Engineer	Larry Haukos		May 2011
Coroner	Stanley Gallagher, D.O.		January 2010
Examiner of Titles	Lowell Nelson		Indefinite
Nursing Home Administrator	Chere Rikimoto		Indefinite
Social Services Director	Rhonda Antrim		Indefinite
Veterans Service Officer	Gary Tracy		October 2013

\*Deceased October 11, 2010. Replaced by Donald Appel November 16, 2010.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Traverse County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Traverse County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Traverse Care Center Enterprise Fund, which is both a major fund and 99 percent, 147 percent, and 93 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Traverse Care Center, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of and for the year ended December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4.C., Traverse County has implemented Governmental Accounting Standards Board's Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Traverse County has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Traverse County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010, on our consideration of Traverse County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 2, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 5,214,818	\$ 590,486	\$ 5,805,304
Investments	97,926	35,249	133,175
Taxes receivable			
Current - net	92,670	-	92,670
Prior - net	39,631	-	39,631
Special assessments receivable			
Current - net	3,804	-	3,804
Prior - net	3,793	-	3,793
Accounts receivable - net	45,637	331,642	377,279
Accrued interest receivable	4,554	-	4,554
Internal balances	24	(24)	-
Due from other governments	2,477,426	-	2,477,426
Prepaid items	14,910	12,678	27,588
Inventories	46,287	18,179	64,466
Restricted assets			
Cash and pooled investments - temporarily restricted	-	81,526	81,526
Investments	-	44,171	44,171
Residents' trust fund	-	14,428	14,428
<b>Noncurrent assets</b>			
Deferred charges	50,935	99,078	150,013
Investment in joint venture	-	29,740	29,740
Capital assets			
Non-depreciable	664,900	16,175	681,075
Depreciable - net of accumulated depreciation	31,716,203	4,241,708	35,957,911
<b>Total Assets</b>	<b>\$ 40,473,518</b>	<b>\$ 5,515,036</b>	<b>\$ 45,988,554</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 143,261	\$ 70,370	\$ 213,631
Salaries payable	35,660	19,318	54,978
Accrued payroll taxes	-	2,782	2,782
Contracts payable	251,684	-	251,684
Due to other governments	260,697	960	261,657
Third-party payor settlements payable	-	190	190
Accrued interest payable	41,544	-	41,544
Compensated absences payable - current	142,846	100,661	243,507
General obligation bonds payable - current	90,000	35,000	125,000
Revenue bonds payable - current	-	85,000	85,000
Leases payable - current	27,562	-	27,562
Loans payable - current	-	44,444	44,444
Interest payable	-	72,893	72,893
Residents' trust fund	-	14,428	14,428
Rent deposits	-	9,599	9,599
<b>Noncurrent liabilities</b>			
Compensated absences payable	90,080	-	90,080
Net pension obligation	345,257	160,675	505,932
General obligation bonds payable	2,326,482	965,370	3,291,852
Revenue bonds payable	-	3,359,290	3,359,290
Leases payable	107,859	-	107,859
Loans payable	-	151,852	151,852
<b>Total Liabilities</b>	<b>\$ 3,862,932</b>	<b>\$ 5,092,832</b>	<b>\$ 8,955,764</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 29,870,682	\$ (363,863)	\$ 29,506,819
Restricted for			
General government	94,731	-	94,731
Public safety	127,766	-	127,766
Highways and streets	1,660,183	-	1,660,183
Human services	34,145	-	34,145
Sanitation	253,981	-	253,981
Debt service	218,142	71,927	290,069
Capital acquisitions	-	6,879	6,879
Unrestricted	4,350,956	707,261	5,058,217
<b>Total Net Assets</b>	<b>\$ 36,610,586</b>	<b>\$ 422,204</b>	<b>\$ 37,032,790</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 1,586,090	\$ 130,917
Public safety	1,469,671	450,442
Highways and streets	3,450,379	354,788
Sanitation	121,987	-
Human services	1,385,033	208,559
Health	97,671	-
Culture and recreation	57,728	11,192
Conservation of natural resources	283,025	61,387
Economic development	2,295	-
Interest	104,119	-
	<b>\$ 8,557,998</b>	<b>\$ 1,217,285</b>
<b>Total governmental activities</b>		
<b>Business-type activities</b>		
Traverse Care Center	\$ 3,542,395	\$ 3,487,183
Prairieview Place	250,677	244,484
	<b>\$ 3,793,072</b>	<b>\$ 3,731,667</b>
<b>Total business-type activities</b>		
	<b>\$ 12,351,070</b>	<b>\$ 4,948,952</b>
<b>Total Primary Government</b>		

**General Revenues**

Property taxes  
Gravel taxes  
Mortgage registry and deed tax  
Grants and contributions not restricted to  
specific programs  
Payments in lieu of tax  
Investment income  
Miscellaneous

**Total general revenues and transfers**

**Change in net assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 23,861	\$ -	\$ (1,431,312)	\$ -	\$ (1,431,312)
1,825,669	-	806,440	-	806,440
2,350,642	197,328	(547,621)	-	(547,621)
55,475	-	(66,512)	-	(66,512)
767,623	-	(408,851)	-	(408,851)
-	-	(97,671)	-	(97,671)
43,994	-	(2,542)	-	(2,542)
627	-	(221,011)	-	(221,011)
-	-	(2,295)	-	(2,295)
-	-	(104,119)	-	(104,119)
<b>\$ 5,067,891</b>	<b>\$ 197,328</b>	<b>\$ (2,075,494)</b>	<b>\$ -</b>	<b>\$ (2,075,494)</b>
\$ 5,167	\$ -	\$ -	\$ (50,045)	\$ (50,045)
-	-	-	(6,193)	(6,193)
<b>\$ 5,167</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (56,238)</b>	<b>\$ (56,238)</b>
<b>\$ 5,073,058</b>	<b>\$ 197,328</b>	<b>\$ (2,075,494)</b>	<b>\$ (56,238)</b>	<b>\$ (2,131,732)</b>
		\$ 4,839,477	\$ -	\$ 4,839,477
		124	-	124
		2,896	-	2,896
		373,751	-	373,751
		20,418	-	20,418
		49,181	2,808	51,989
		143,415	-	143,415
		<b>\$ 5,429,262</b>	<b>\$ 2,808</b>	<b>\$ 5,432,070</b>
		\$ 3,353,768	\$ (53,430)	\$ 3,300,338
		<b>33,256,818</b>	<b>475,634</b>	<b>33,732,452</b>
		<b>\$ 36,610,586</b>	<b>\$ 422,204</b>	<b>\$ 37,032,790</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 1,414,353	\$ 1,117,519	\$ 1,728,886	\$ 752,356	\$ 5,013,114
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	104,078	57,092	29,899	9,135	200,204
Investments	97,926	-	-	-	97,926
Taxes receivable					
Current	46,284	27,551	14,424	4,411	92,670
Prior	20,191	11,349	6,675	1,416	39,631
Special assessments receivable					
Current	3,804	-	-	-	3,804
Prior	3,793	-	-	-	3,793
Accounts receivable	10,122	32,958	2,557	-	45,637
Accrued interest receivable	4,554	-	-	-	4,554
Due from other funds	5,049	1,567	-	-	6,616
Due from other governments	109,806	2,301,307	66,313	-	2,477,426
Prepaid items	14,910	-	-	-	14,910
Inventories	-	46,287	-	-	46,287
<b>Total Assets</b>	<b>\$ 1,836,270</b>	<b>\$ 3,595,630</b>	<b>\$ 1,848,854</b>	<b>\$ 767,318</b>	<b>\$ 8,048,072</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 53,010	\$ 50,021	\$ 34,887	\$ -	\$ 137,918
Salaries payable	558	35,102	-	-	35,660
Contracts payable	-	251,684	-	-	251,684
Due to other funds	1,567	1,047	9,321	-	11,935
Due to other governments	65,134	151,489	44,074	-	260,697
Deferred revenue					
Unavailable	131,190	2,217,212	30,034	5,278	2,383,714
Compensated absences	3,197	5,774	1,686	-	10,657
<b>Total Liabilities</b>	<b><u>\$ 254,656</u></b>	<b><u>\$ 2,712,329</u></b>	<b><u>\$ 120,002</u></b>	<b><u>\$ 5,278</u></b>	<b><u>\$ 3,092,265</u></b>
<b>Fund Balances</b>					
Reserved for					
Boat and water safety	\$ 12,266	\$ -	\$ -	\$ -	\$ 12,266
Debt service	-	-	-	218,142	218,142
Future plant expansion	253,981	-	-	-	253,981
Inventories	-	46,287	-	-	46,287
Missing heirs	31,236	-	-	-	31,236
Prepaid items	14,910	-	-	-	14,910
Enhanced 911	115,500	-	-	-	115,500
Help America Vote Act	6,080	-	-	-	6,080
Recorder's equipment	41,041	-	-	-	41,041
Recorder's compliance fund	32,700	-	-	-	32,700
Rainbow Rider	34,145	-	-	-	34,145
Unreserved					
Undesignated	1,039,755	837,014	1,728,852	-	3,605,621
Reported in nonmajor Special revenue fund	-	-	-	543,898	543,898
<b>Total Fund Balances</b>	<b><u>\$ 1,581,614</u></b>	<b><u>\$ 883,301</u></b>	<b><u>\$ 1,728,852</u></b>	<b><u>\$ 762,040</u></b>	<b><u>\$ 4,955,807</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 1,836,270</u></b>	<b><u>\$ 3,595,630</u></b>	<b><u>\$ 1,848,854</u></b>	<b><u>\$ 767,318</u></b>	<b><u>\$ 8,048,072</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2009**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>4,955,807</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		32,381,103
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,383,714
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,375,000)	
Less: deferred issuance costs	50,935	
Add: unamortized premiums	(41,482)	
Capital leases	(135,421)	
Compensated absences	(222,269)	
Accrued interest payable	(41,544)	
Net pension obligation	(345,257)	(3,110,038)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u><u>\$ 36,610,586</u></u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 2,397,289	\$ 1,404,384	\$ 764,585	\$ 229,445	\$ 4,795,703
Special assessments	56,342	-	-	-	56,342
Licenses and permits	9,272	-	-	-	9,272
Intergovernmental	536,984	5,664,024	801,122	4,696	7,006,826
Charges for services	223,235	195,768	1,898	-	420,901
Fines and forfeits	141	-	-	-	141
Gifts and contributions	1,300	-	-	-	1,300
Investment earnings	50,638	-	-	-	50,638
Miscellaneous	479,077	39,680	202,142	60,445	781,344
<b>Total Revenues</b>	<b>\$ 3,754,278</b>	<b>\$ 7,303,856</b>	<b>\$ 1,769,747</b>	<b>\$ 294,586</b>	<b>\$ 13,122,467</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,451,342	\$ -	\$ -	\$ 7,948	\$ 1,459,290
Public safety	1,437,082	-	-	-	1,437,082
Highways and streets	-	7,121,183	-	-	7,121,183
Sanitation	118,267	-	-	-	118,267
Human services	-	-	1,332,850	-	1,332,850
Health	97,671	-	-	-	97,671
Culture and recreation	56,780	-	-	-	56,780
Conservation of natural resources	281,420	-	-	-	281,420
Economic development	2,295	-	-	-	2,295
<b>Intergovernmental</b>	-	181,110	-	-	181,110
<b>Capital outlay</b>	-	-	-	5,710	5,710
<b>Debt service</b>					
Principal	31,670	-	-	90,000	121,670
Interest	6,931	-	-	98,550	105,481
<b>Total Expenditures</b>	<b>\$ 3,483,458</b>	<b>\$ 7,302,293</b>	<b>\$ 1,332,850</b>	<b>\$ 202,208</b>	<b>\$ 12,320,809</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 270,820</b>	<b>\$ 1,563</b>	<b>\$ 436,897</b>	<b>\$ 92,378</b>	<b>\$ 801,658</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ -	\$ -	\$ 88,103	\$ 88,103
Transfers out	-	-	-	(88,103)	(88,103)
Capital lease issued	33,227	-	-	-	33,227
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 33,227</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 33,227</b>
<b>Net Change in Fund Balance</b>	<b>\$ 304,047</b>	<b>\$ 1,563</b>	<b>\$ 436,897</b>	<b>\$ 92,378</b>	<b>\$ 834,885</b>
<b>Fund Balance - January 1</b>	<b>1,277,567</b>	<b>878,772</b>	<b>1,291,955</b>	<b>669,662</b>	<b>4,117,956</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>2,966</b>	<b>-</b>	<b>-</b>	<b>2,966</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,581,614</b>	<b>\$ 883,301</b>	<b>\$ 1,728,852</b>	<b>\$ 762,040</b>	<b>\$ 4,955,807</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 834,885**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 2,383,714	
Deferred revenue - January 1	<u>(3,594,387)</u>	(1,210,673)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 5,220,023	
Net book value of assets disposed of	(151,590)	
Current year depreciation	<u>(1,090,577)</u>	3,977,856

Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets.

Capital lease financing		(33,227)
-------------------------	--	----------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 90,000	
Capital lease	<u>31,670</u>	121,670

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 1,712	
Change in deferred charges	(3,011)	
Amortization of bond premiums	2,452	
Change in compensated absences	3,954	
Change in inventories	2,966	
Change in capital leases	441	
Net pension obligation	<u>(345,257)</u>	<u>(336,743)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,353,768**



**PROPRIETARY FUNDS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 8,406	\$ 582,080	\$ 590,486
Investments	-	35,249	35,249
Accounts receivable - net	-	331,642	331,642
Inventories	2,144	16,035	18,179
Prepaid items	-	12,678	12,678
<b>Total current assets</b>	<b>\$ 10,550</b>	<b>\$ 977,684</b>	<b>\$ 988,234</b>
<b>Restricted assets</b>			
Cash and pooled investments	\$ 9,599	\$ 71,927	\$ 81,526
Investments	-	44,171	44,171
Residents' trust fund	-	14,428	14,428
<b>Total restricted assets</b>	<b>\$ 9,599</b>	<b>\$ 130,526</b>	<b>\$ 140,125</b>
<b>Noncurrent assets</b>			
Advance to other funds	\$ -	\$ 56,961	\$ 56,961
Deferred debt issuance costs	19,210	79,868	99,078
Investment in joint venture	-	29,740	29,740
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	837,446	3,404,262	4,241,708
<b>Total noncurrent assets</b>	<b>\$ 856,656</b>	<b>\$ 3,587,006</b>	<b>\$ 4,443,662</b>
<b>Total Assets</b>	<b>\$ 876,805</b>	<b>\$ 4,695,216</b>	<b>\$ 5,572,021</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 5,972	\$ 64,398	\$ 70,370
Salaries payable	-	19,318	19,318
Accrued payroll taxes	-	2,782	2,782
Compensated absences payable - current	1,318	99,343	100,661
Due to other funds	24	-	24
Due to other governments	960	-	960
Third-party payor settlements payable	-	190	190
General obligation bonds payable - current	35,000	-	35,000
Revenue bonds payable - current	-	85,000	85,000
Loans payable - current	-	44,444	44,444
<b>Total current liabilities</b>	<b>\$ 43,274</b>	<b>\$ 315,475</b>	<b>\$ 358,749</b>
<b>Current liabilities payable from restricted assets</b>			
Interest payable	\$ -	\$ 72,893	\$ 72,893
Residents' trust fund	-	14,428	14,428
Rent deposits	9,599	-	9,599
<b>Total current liabilities payable from restricted assets</b>	<b>\$ 9,599</b>	<b>\$ 87,321</b>	<b>\$ 96,920</b>
<b>Noncurrent liabilities</b>			
Advance from other funds	\$ 56,961	\$ -	\$ 56,961
Loans payable - long-term	-	151,852	151,852
Net pension obligation	401	160,274	160,675
General obligation bonds payable - long-term	965,370	-	965,370
Revenue bonds payable - long-term	-	3,359,290	3,359,290
<b>Total noncurrent liabilities</b>	<b>\$ 1,022,732</b>	<b>\$ 3,671,416</b>	<b>\$ 4,694,148</b>
<b>Total Liabilities</b>	<b>\$ 1,075,605</b>	<b>\$ 4,074,212</b>	<b>\$ 5,149,817</b>
<b>Net Assets</b>			
Invested in capital assets - net of related debt	\$ (143,714)	\$ (220,149)	\$ (363,863)
Restricted for debt service	-	71,927	71,927
Restricted for capital acquisitions	-	6,879	6,879
Unrestricted	(55,086)	762,347	707,261
<b>Total Net Assets</b>	<b>\$ (198,800)</b>	<b>\$ 621,004</b>	<b>\$ 422,204</b>

The notes to the financial statements are an integral part of this statement.

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Operating Revenues</b>			
Charges for services	\$ 210,213	\$ -	\$ 210,213
Patient services revenues	-	3,374,218	3,374,218
Meals	32,914	-	32,914
Laundry	1,302	-	1,302
Miscellaneous	55	112,965	113,020
<b>Total Operating Revenues</b>	<b>\$ 244,484</b>	<b>\$ 3,487,183</b>	<b>\$ 3,731,667</b>
<b>Operating Expenses</b>			
Personal services	\$ 31,173	\$ 776,278	\$ 807,451
Employee benefits and payroll taxes	401	-	401
Nursing services	-	1,033,247	1,033,247
Contracted services	45,876	-	45,876
Administration and fiscal services	-	357,251	357,251
Other care-related	-	93,142	93,142
Supplies	3,033	-	3,033
Ancillary services	-	136,518	136,518
Travel	236	-	236
Telephone	646	-	646
Utilities	30,710	-	30,710
Plant operations	-	211,345	211,345
Advertising	1,542	-	1,542
Repairs and maintenance	5,544	-	5,544
Insurance	14,378	-	14,378
Licenses and dues	665	-	665
Postage	68	-	68
Property and household	-	142,765	142,765
Laundry	-	66,899	66,899
Dietary	-	286,516	286,516
Housekeeping	-	63,255	63,255
Miscellaneous	17,970	-	17,970
Depreciation	46,435	214,304	260,739
<b>Total Operating Expenses</b>	<b>\$ 198,677</b>	<b>\$ 3,381,520</b>	<b>\$ 3,580,197</b>
<b>Operating Income (Loss)</b>	<b>\$ 45,807</b>	<b>\$ 105,663</b>	<b>\$ 151,470</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

***EXHIBIT 8  
(Continued)***

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	\$ 81	\$ 2,727	\$ 2,808
Gifts and contributions	-	5,167	5,167
Interest expense	(52,000)	(173,642)	(225,642)
Gain on investment in joint venture	-	12,767	12,767
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (51,919)</b>	<b>\$ (152,981)</b>	<b>\$ (204,900)</b>
<b>Change in net assets</b>	<b>\$ (6,112)</b>	<b>\$ (47,318)</b>	<b>\$ (53,430)</b>
<b>Net Assets - January 1</b>	<b>(192,688)</b>	<b>668,322</b>	<b>475,634</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Assets - December 31</b>	<b>\$ (198,800)</b>	<b>\$ 621,004</b>	<b>\$ 422,204</b>
	<u>          </u>	<u>          </u>	<u>          </u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ 244,484	\$ 3,385,581	\$ 3,630,065
Payments to suppliers and employees	-	(3,017,719)	(3,017,719)
Payments to suppliers	(139,119)	-	(139,119)
Payments to employees	(30,411)	-	(30,411)
Additions in rent deposits	2,490	-	2,490
Other receipts and payments - net	-	111,789	111,789
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 77,444</b>	<b>\$ 479,651</b>	<b>\$ 557,095</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Contributions	-	5,167	5,167
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal paid on long-term debt	\$ (34,717)	\$ (124,445)	\$ (159,162)
Interest paid on long-term debt	(52,000)	(173,642)	(225,642)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (86,717)</b>	<b>\$ (298,087)</b>	<b>\$ (384,804)</b>
<b>Cash Flows from Investing Activities</b>			
Increase in noncurrent investments	\$ -	\$ (5,091)	\$ (5,091)
Investment earnings received	81	2,727	2,808
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 81</b>	<b>\$ (2,364)</b>	<b>\$ (2,283)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (9,192)</b>	<b>\$ 184,367</b>	<b>\$ 175,175</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>27,197</b>	<b>469,640</b>	<b>496,837</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 18,005</b>	<b>\$ 654,007</b>	<b>\$ 672,012</b>

The notes to the financial statements are an integral part of this statement.

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Cash and Cash Equivalents - Exhibit 7</b>			
Cash and pooled investments	\$ 8,406	\$ 582,080	\$ 590,486
Restricted cash and pooled investments	9,599	71,927	81,526
<b>Total Cash and Cash Equivalents</b>	<b>\$ 18,005</b>	<b>\$ 654,007</b>	<b>\$ 672,012</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
<b>Operating income (loss)</b>	<b>\$ 45,807</b>	<b>\$ 105,663</b>	<b>\$ 151,470</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>			
Depreciation and amortization	\$ 46,435	\$ 214,304	\$ 260,739
(Increase) decrease in accounts receivable	-	6,555	6,555
(Increase) decrease in inventories	(361)	1,514	1,153
(Increase) decrease in deferred debt issuance costs	1,176	-	1,176
(Increase) decrease in prepaid items	-	(2,267)	(2,267)
Increase (decrease) in accounts payable	4,315	(4,842)	(527)
Increase (decrease) in compensated absences payable	762	-	762
Increase (decrease) in due to other funds	(21,906)	-	(21,906)
Increase (decrease) in due to other governments	(1,675)	-	(1,675)
Increase (decrease) in accrued expenses	-	(6,358)	(6,358)
Increase (decrease) in third-party payor settlements payable	-	4,808	4,808
Increase (decrease) in rent deposits payable	2,490	-	2,490
Increase (decrease) in net pension obligation	401	160,274	160,675
<b>Total adjustments</b>	<b>\$ 31,637</b>	<b>\$ 373,988</b>	<b>\$ 405,625</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 77,444</b>	<b>\$ 479,651</b>	<b>\$ 557,095</b>



**FIDUCIARY FUNDS**

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TRAVERSE COUNTY  
WHEATON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2009

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 176,596
Due from other funds	<u>5,343</u>
<b>Total Assets</b>	<b><u>\$ 181,939</u></b>
<b><u>Liabilities</u></b>	
Due to other governments	<b><u>\$ 181,939</u></b>

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Traverse County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Coordinator, appointed by the Board, serves as the Clerk of the Board but does not vote in its decisions.

Joint Ventures

The County participates in several joint ventures described in Note 7.C. The County also participates in jointly-governed organizations and a related organization described in Note 7.D. and Note 7.E., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The County reports the following major enterprise funds:

The Prairieview Place Fund is used to account for the operations of the County's congregate housing.

The Traverse Care Center Fund is used to account for the operations of the County's nursing home.

Additionally, the County reports the following fund type:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Traverse County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2009, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2009 were \$50,223.

Traverse County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles. At December 31, 2009, the Traverse Care Center had an allowance for doubtful accounts of \$28,000.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, applicable laws and regulations limit their use.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the County, as well as its component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	7 - 20
Infrastructure	50
Machinery, furniture, and equipment	5 - 15

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Third-Party Reimbursement Agreements

Medicaid

The Traverse Care Center participates in the Medicaid program administered by the Minnesota Department of Human Services. The Care Center is reimbursed under the Alternative Payment System. Reimbursement is based on the previous year's rates.

The State of Minnesota utilizes a Minimum Data Set-based resident assessment system. As a result, Medicaid and private paying residents are classified into 1 of 34 Resource Utilization Groups for purposes of establishing payment rates.

Through September 30, 2008, the Care Center was paid under the Alternative Payment System (APS) for Medicaid residents. Under this system, the per diem rates were determined annually with inflationary adjustments, if any, as determined by the Legislature. Effective October 1, 2008, nursing facility operating rates were paid under Minn. Stat. § 256B.441, which contains the methodology referred to as "rebased." The rebased operating rates were being phased in over an eight-year period, based on a percentage of the rebased rates and a percentage of the prior rates determined under the APS. The rebased portions of the operating rates were determined based on an annual statistical and cost report filed, subject to limitations.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Third-Party Reimbursement Agreements

Medicaid (Continued)

As a result of the 2010 legislative session, rebasing was discontinued until 2013. Consequently, the operating rates will remain at the levels established on October 1, 2008, until October 1, 2013, unless there are subsequent legislative changes.

The current statute does not include a “hold harmless” provision. The operating rates from October 1, 2009, through October 1, 2015, will not be less than the operating payment rates in effect on September 30, 2009.

By Minnesota statutes, a nursing facility may not charge private-paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

Medicare

By Minnesota statutes, a nursing facility that participates in the Medicaid program must also participate in the Medicare program. This program is administered by the Centers for Medicare and Medicaid Services.

The Care Center is paid under the Medicare prospective payment system (PPS) for residents who are Medicare eligible. The PPS is a per diem price-based system.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Third-Party Reimbursement Agreements (Continued)

Occupancy Percentages

During the year ended December 31, 2009, the occupancy percentage and the percentages of residents covered by the Medicaid and Medicare programs were as follows:

Total occupancy	98.9%
Medicaid	68.8
Medicare	2.8

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had deficit net assets as of December 31, 2009:

Prairieview Place Enterprise Fund	\$ 198,800
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The deficit net assets in the Prairieview Place Enterprise Fund are expected to be eliminated by future earnings.

B. Excess of Expenditures Over Budget

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

The following is a summary of the individual funds that had expenditures in excess of budget for the year ended December 31, 2009:

	Expenditures	Budget	Excess
Road and Bridge Special Revenue Fund	\$ 7,302,293	\$ 3,762,000	\$ 3,540,293
Building Special Revenue Fund	7,948	-	7,948

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments is reported as follows:

Primary government	
Cash and pooled investments	\$ 5,805,304
Investments	133,175
Restricted assets	
Cash and pooled investments	81,526
Investments	44,171
Residents' trust fund	14,428
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>176,596</u>
 Total Cash and Investments	 <u>\$ 6,255,200</u>

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's deposit policy for custodial credit risk provides that the Auditor/Treasurer shall insure that a bond, pledged collateral, or depository insurance is provided to protect all public deposits. As of December 31, 2009, the County's deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirement set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit.

The following table presents the County's deposit and investment balances at December 31, 2009, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal Home Loan Mortgage Corporation	AAA	Moody's	24%	03/12/2024	\$ 106,770
Federal Home Loan Mortgage Corporation	AAA	Moody's	21%	04/17/2024	92,658
Total Federal Home Loan Mortgage Corporation					\$ 199,428
U.S. Treasury Strip	N/A	N/A		08/15/2013	\$ 200,781
Investment pools/mutual funds					
Federated U.S. Government Fund	AAA	S & P			\$ 35,397
MAGIC Fund	N/A	N/A			6,547
Total investment pools/mutual funds			N/A		\$ 41,944
Total investments					\$ 442,153
Deposits					5,811,397
Change funds					1,650
Total Cash and Investments					\$ 6,255,200

N/A - Not Applicable  
S&P - Standard & Poor's

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2009, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables
Governmental Activities	
Taxes	\$ 132,301
Special assessments	7,597
Accounts	45,637
Interest	4,554
Due from other governments	2,477,426
Total Governmental Activities	\$ 2,667,515
Business-Type Activities	
Accounts receivable	\$ 331,642

All receivables listed are expected to be collected during the next year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 176,352	\$ -	\$ -	\$ 176,352
Right-of-way	478,548	-	-	478,548
Construction in progress	90,046	-	80,046	10,000
Total capital assets not depreciated	\$ 744,946	\$ -	\$ 80,046	\$ 664,900
Capital assets depreciated				
Buildings	\$ 5,231,233	\$ -	\$ -	\$ 5,231,233
Land improvements	61,502	-	-	61,502
Machinery, furniture, and equipment	4,352,962	452,516	405,117	4,400,361
Infrastructure	30,634,282	4,847,553	-	35,481,835
Total capital assets depreciated	\$ 40,279,979	\$ 5,300,069	\$ 405,117	\$ 45,174,931

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,520,320	\$ 115,123	\$ -	\$ 1,635,443
Land improvements	21,469	3,518	-	24,987
Machinery, furniture, and equipment	3,178,413	261,489	253,527	3,186,375
Infrastructure	7,901,476	710,447	-	8,611,923
Total accumulated depreciation	<u>\$ 12,621,678</u>	<u>\$ 1,090,577</u>	<u>\$ 253,527</u>	<u>\$ 13,458,728</u>
Total capital assets depreciated, net	<u>\$ 27,658,301</u>	<u>\$ 4,209,492</u>	<u>\$ 151,590</u>	<u>\$ 31,716,203</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 28,403,247</u></u>	<u><u>\$ 4,209,492</u></u>	<u><u>\$ 231,636</u></u>	<u><u>\$ 32,381,103</u></u>

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Capital assets depreciated				
Buildings	\$ 6,398,048	\$ -	\$ -	\$ 6,398,048
Land improvements	43,938	-	-	43,938
Machinery, furniture, and equipment	504,319	-	-	504,319
Total capital assets depreciated	<u>\$ 6,946,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,946,305</u>
Less: accumulated depreciation for				
Buildings	\$ 2,016,638	\$ 231,265	\$ -	\$ 2,247,903
Land improvements	38,062	1,072	-	39,134
Machinery, furniture, and equipment	392,124	25,436	-	417,560
Total accumulated depreciation	<u>\$ 2,446,824</u>	<u>\$ 257,773</u>	<u>\$ -</u>	<u>\$ 2,704,597</u>
Total capital assets depreciated, net	<u>\$ 4,499,481</u>	<u>\$ (257,773)</u>	<u>\$ -</u>	<u>\$ 4,241,708</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 4,515,656</u></u>	<u><u>\$ (257,773)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,257,883</u></u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities		
General government	\$	105,849
Public safety		46,726
Highways and streets, including depreciation of infrastructure assets		926,146
Social services		7,482
Sanitation		3,426
Culture and recreation		948
		948
Total Depreciation Expense - Governmental Activities	\$	1,090,577
Business-Type Activities		
Traverse Care Center	\$	211,338
Prairieview Place		46,435
		46,435
Total Depreciation Expense - Business-Type Activities	\$	257,773

4. Investment in Joint Venture

Traverse County and the City of Wheaton entered into a joint powers agreement in June 2007 to provide home care services for residents of Traverse County and other individuals located within 30 miles of the City of Wheaton. The name of the entity is Traverse Care Center-Wheaton Community Hospital JPA, doing business as Pheasant County Home Care. Traverse Care Center and the Wheaton Community Hospital contribute equally to the costs of operation of Pheasant County Home Care and will receive any surplus equally. The Traverse Care Center Enterprise Fund accounts for its investment on the equity method. The investment balance at December 31, 2009, is as follows:

Initial contribution	\$	95,000
Traverse Care Center's share of 2007 net loss		(41,590)
2008 contribution to joint venture		57,000
Traverse Care Center's share of 2008 net loss		(93,438)
Traverse Care Center's share of 2009 net income		12,768
		12,768
Ending Equity in Joint Venture	\$	29,740

Financial statements for the joint venture are available from the City of Wheaton.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 1,047
	Social Services Special Revenue Fund	3,978
	Prairieview Place Enterprise Fund	24
Total due to General Fund		\$ 5,049
Road and Bridge Special Revenue Fund	General Fund	1,567
Fiduciary Fund	Social Services Special Revenue Fund	5,343
Total Due To/From Other Funds		\$ 11,959

The outstanding balances between funds result mainly from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
Traverse Care Center Enterprise Fund	Prairieview Place Enterprise Fund	\$ 56,961

The purpose of the advance from the Traverse Care Center to the Prairieview Place Enterprise Fund was for payment of debt issued for the construction of the congregate housing project.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfers to Jail/LEC Debt Service Fund from Capital Equipment Capital Projects Fund	\$ 80,155	Transfer balance to close Capital Equipment Capital Projects Fund
Transfers to Building Special Revenue Fund from Capital Equipment Capital Projects Fund	7,948	Transfer balance to close Capital Equipment Capital Projects Fund
Total Interfund Transfers	\$ 88,103	

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 143,261	\$ 70,370
Salaries	35,660	19,318
Accrued payroll taxes	-	2,782
Contracts	251,684	-
Due to other governments	260,697	960
Interest	41,544	72,893
Residents' trust fund	-	14,428
Rent deposits	-	9,599
Other current liabilities	-	190
Total Payables	\$ 732,846	\$ 190,540



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2009, for the County is as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes and special assessments	\$ 125,616	\$ -
State-aid highway allotments	1,848,576	-
Charges for services	209,619	-
Grants	134,691	-
Interest	4,119	-
Other	61,093	-
	<hr/>	<hr/>
Total Deferred	<u>\$ 2,383,714</u>	<u>\$ -</u>

3. Construction Commitments

The government has active construction projects as of December 31, 2009. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	<u>\$ 2,524,161</u>	<u>\$ 35,205</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Leases

Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2009:

Leases	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
Digital video system	2009	Monthly	\$ 447	\$ 12,882	\$ -
Social Services building	2014	Semi-Annual	12,900	300,000	111,423
2009 Dodge Charger	2012	Annual	9,229	33,227	23,998
Total Governmental Activities Capital Leases					<u>\$ 135,421</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2009, were as follows:

Year Ending December 31	Governmental Activities
2010	\$ 35,028
2011	35,028
2012	35,028
2013	25,799
2014	25,060
Total minimum lease payments	\$ 155,943
Less: amount representing interest	<u>(20,522)</u>
Present Value of Minimum Lease Payments	<u>\$ 135,421</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2009</u>
General obligation bonds					
2006 G.O. Jail Bonds	2027	\$50,000 - \$185,000	4.00 - 4.25	<u>\$ 2,515,000</u>	\$ 2,375,000
Add: unamortized premium					<u>41,482</u>
Total General Obligation Bonds					<u>\$ 2,416,482</u>

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2009</u>
USDA Loan	2014	\$44,444	-	\$ 400,000	<u>\$ 196,296</u>
2005 G.O. Governmental Housing Refunding Bonds	2026	\$30,000 - \$85,000	5.00	\$ 1,190,000	\$ 1,005,000
Less: unamortized discount					<u>(4,630)</u>
Total G.O. Bonds, Net					<u>\$ 1,000,370</u>
2003 G.O. Nursing Home Revenue Bonds	2033	\$75,000 - \$235,000	3.25 - 5.30	\$ 3,745,000	\$ 3,435,000
Add: unamortized premium					<u>9,290</u>
Total Revenue Bonds, Net					<u>\$ 3,444,290</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2010	\$ 90,000	\$ 94,950
2011	95,000	91,250
2012	100,000	87,350
2013	100,000	83,350
2014	105,000	79,250
2015 - 2019	600,000	327,750
2020 - 2024	750,000	193,344
2025 - 2027	535,000	34,744
Total	<u>\$ 2,375,000</u>	<u>\$ 991,988</u>

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 40,000	\$ 50,250	\$ 85,000	\$ 171,717
2011	40,000	48,250	85,000	168,233
2012	45,000	46,250	90,000	164,423
2013	45,000	44,000	95,000	160,260
2014	45,000	41,750	94,998	155,985
2015 - 2019	275,000	171,500	550,002	709,707
2020 - 2024	350,000	95,250	685,000	551,516
2025 - 2029	165,000	12,500	875,000	350,254
2030 - 2033	-	-	875,000	95,750
Total	<u>\$ 1,005,000</u>	<u>\$ 509,750</u>	<u>\$ 3,435,000</u>	<u>\$ 2,527,845</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements

Business-Type Activities (Continued)

Year Ending December 31	USDA Loan Principal
2010	\$ 44,444
2011	44,444
2012	44,444
2013	44,444
2014	18,520
Total	\$ 196,296

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. jail bonds payable	\$ 2,465,000	\$ -	\$ 90,000	\$ 2,375,000	\$ 90,000
Unamortized issuance premium	43,934	-	2,452	41,482	-
Capital leases	134,305	33,227	32,111	135,421	27,562
Compensated absences	233,204	179,535	179,813	232,926	142,846
Governmental Activities					
Long-Term Liabilities	\$ 2,876,443	\$ 212,762	\$ 304,376	\$ 2,784,829	\$ 260,408

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	\$ 1,040,000	\$ -	\$ 35,000	\$ 1,005,000	\$ 35,000
Revenue bonds	3,515,000	-	80,000	3,435,000	85,000
Deferred amounts for issuance premium/discounts	4,779	-	119	4,660	-
Total bonds payable	\$ 4,559,779	\$ -	\$ 115,119	\$ 4,444,660	\$ 120,000
Loan payable	240,740	-	44,444	196,296	44,444
Compensated absences	101,005	63,101	63,445	100,661	100,661
Business-Type Activities Long-Term Liabilities	\$ 4,901,524	\$ 63,101	\$ 223,008	\$ 4,741,617	\$ 265,105

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Traverse County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 221,056	\$ 205,933	\$ 202,631
Public Employees Police and Fire Fund	33,821	23,166	21,745
Public Employees Correctional Fund	29,641	29,318	11,420

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

B. Defined Contribution Plan

Three employees of Traverse County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,341	\$ 2,341
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Beginning in 2009, Traverse County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

This statement required the County to calculate and record a net OPEB obligation at December 31, 2009. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2009.

Plan Description

Traverse County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Traverse County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2009, there were 147 participants in the plan, including 49 retirees.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	357,049
Interest on net OPEB obligation		18,795
Adjustment to ARC		487,137
Annual OPEB cost (expense)	\$	862,981
Contributions made		(357,049)
Increase in net OPEB obligation	\$	505,932
Net OPEB Obligation - Beginning of Year		-
Net OPEB Obligation - End of Year	\$	505,932

The County's annual OPEB cost for December 31, 2009, was \$862,981. The percentage of annual OPEB cost contributed to the plan was 41.4 percent, and the net OPEB obligation for 2009 was \$505,932. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2009.

Funded Status and Funding Progress

Governmental Activities

As of January 1, 2009, the most recent actuarial valuation date, the plan had no funding. The actuarial accrued liability for benefits was \$8,043,747 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,043,747. The covered payroll (annual payroll of active employees covered by the plan) was \$2,117,166, and the ratio of the UAAL to the covered payroll was 379.9 percent.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Business-Type Activities

As of January 1, 2009, the most recent actuarial valuation date, the plan had no funding. The actuarial accrued liability for benefits was \$3,049,073 and the actuarial value of assets was zero, resulting in a UAAL of \$3,049,073. The covered payroll (annual payroll of active employees covered by the plan) was \$1,278,309, and the ratio of the UAAL to the covered payroll was 239.0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Pension Plans

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Traverse County's implicit rate of return on the General Fund. The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2009, was 29 years.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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6. Concentration of Credit Risk

The Traverse Care Center grants credit without collateral to its residents, most of whom are local individuals and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors are as follows at December 31, 2009:

Medicare	17%
Medicaid	47
Resident and other third-party payors	<u>36</u>
Total	<u><u>100%</u></u>

7. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County resulting from such litigation and not covered by insurance would not materially affect the financial statements of the County.

B. Residents' Trust Deposits

According to the terms of the admissions agreement, the Traverse Care Center is the trustee of the resident funds. The funds are disbursed at the direction of the resident for personal items. These funds are recorded on the Care Center's financial statements as restricted assets - residents' trust fund. A corresponding liability is also booked. These funds are made up of a checking and a passbook savings account.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items (Continued)

C. Joint Ventures

Stevens Traverse Grant Public Health Nursing Service

Traverse County entered into a joint powers agreement creating and operating the Stevens Traverse Grant Public Health Nursing Service, pursuant to Minn. Stat. § 471.59. The Nursing Service is headquartered in Morris, Minnesota, and has other offices in Wheaton and Elbow Lake, Minnesota.

The management of the Nursing Service is vested in the Joint Public Health Nursing Board, which consists of nine members, three Commissioners each from Grant County, Stevens County, and Traverse County.

Financing is provided by state grants; appropriations from Grant, Stevens, and Traverse Counties; and charges for services. Traverse County's contribution for 2009 was \$73,787, based on a cost allocation plan developed by Fiscal Officer, Karen Folkens.

Complete financial statements for the Stevens Traverse Grant Public Health Nursing Service can be obtained from:

Stevens Traverse Grant Public Health Nursing Service  
621 Pacific Avenue  
Morris, Minnesota 56267

Mid-State Community Health Services

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services grant pursuant to Minn. Stat. § 471.59 (following a budget approved by the four-county Board). Stevens Traverse Grant Public Health Nursing Service receives and administers the grant money.

Complete financial statements for the Mid-State Community Health Services can be obtained from its administrative office at:

Mid-State Community Health Services  
621 Pacific Avenue  
Morris, Minnesota 56267

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rainbow Rider Transit Board

Douglas, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board (Rainbow Rider) effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from the West Central Multi-County Joint Powers Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. The Board consists of two members appointed by each member county from its County Board for terms of one year each.

Complete financial statements for Rainbow Rider can be obtained from its administrative office at:

Rainbow Rider Transit Board  
P. O. Box 136  
Lowry, Minnesota 56349

Minnesota River Basin Joint Powers

Traverse County entered into a joint powers agreement to promote the orderly water quality improvement and management of the Minnesota River watershed, pursuant to Minn. Stat. § 471.59. The management of the Joint Powers is vested in the Board of Directors consisting of one member and alternate from each County Board of Commissioners included in this agreement. According to the latest information available, 37 counties are members under this agreement.

Financing is provided by a contribution from each member county based on its share of the annual budget. Traverse County did not contribute any funds to the Joint Powers in 2009.



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota River Basin Joint Powers (Continued)

Complete financial statements for the Joint Powers can be obtained from its administrative offices at:

Minnesota River Basin Joint Powers  
184 Trafton Service Center  
Minnesota State University at Mankato  
Mankato, Minnesota 56001

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

Control is vested in the West Central Board on Aging. The Board consists of one Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Complete financial statements for the West Central Area Agency on Aging can be obtained from its administrative office at:

West Central Area Agency on Aging  
313 South Mill Street  
P. O. Box 726  
Fergus Falls, Minnesota 56537

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Traverse County and nine other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. The County did not contribute any funds in 2009.

Complete financial information can be obtained from:

Prime West Health Systems  
2209 Jefferson Street  
Suite 101  
Alexandria, Minnesota 56308

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board Joint Powers Board was established June 5, 2007, between Traverse County, the City of Wheaton, and eleven other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Central Minnesota Regional Advisory Committee, a member of the Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

Traverse County contributed \$3,476 to the Joint Powers in 2009. Complete financial information can be obtained from Traverse County at:

Traverse County  
702 - 2nd Avenue North  
Wheaton, Minnesota 56301

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 471.59 and 145A.17, and a joint powers agreement, effective June 5, 2007. The Board consists of 12 members, which include an appointed Commissioner from each participating county. McLeod County is the fiscal agent. The primary purpose of the joint venture is to improve the health and life-course of low-income, first-time mothers and their children. The joint venture is financed primarily by contributions from participating counties.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

Complete financial information can be obtained from:

Supporting Hands Nurse Family Partnership Board  
2385 Hennepin Avenue North  
Glencoe, Minnesota 55336

D. Jointly-Governed Organizations

Western Area City/County Co-Op

Traverse County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO shall be vested in a Board of Directors composed of a representative appointed by each member city and county.

District IV Transportation Planning

Traverse County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Traverse County Connections

Traverse County Connections was established in 1999 under the authority of Minn. Stat. §§ 124D.23 and 245.491. Traverse County Connections was formed as a children's mental health and family services collaborative for the purpose of providing coordinated children and family services and to create an integrated system of services

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Traverse County Connections (Continued)

for children and families with multiple and special needs. This collaborative includes Traverse County Social Services, Stevens-Traverse Public Health, Wheaton Public Schools, Browns Valley Public Schools, Traverse County Court Services, the Life Center, West Central Minnesota Community Action, and Prairie Community Services.

Control of Traverse County Connections is vested in a collaborative governing board and an Executive Committee. The Board is composed of one member and an alternate from each agency involved, except for Prairie Community Services. The Board has revenue authority and approves the annual budget. The Executive Committee comprises a representative from each agency and a parent nominated from the area. The Executive Committee has design and policy oversight authority as well as authority over expenditures.

In the event of withdrawal from Traverse County Connections, the withdrawing party shall give a 180-day notice. The withdrawing party shall not be entitled to a refund of monies contributed to the collaborative prior to the effective date of withdrawal. The Board shall continue to exist if the collaborative is terminated for the limited purpose of discharging the collaborative's debts and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. The County did not contribute any funds in 2009.

E. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County HRA has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2005, the HRA issued \$1,190,000 of General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$1,000,370, net of discount and unamortized issuance costs.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,515,589	\$ 2,515,589	\$ 2,397,289	\$ (118,300)
Special assessments	-	-	56,342	56,342
Licenses and permits	9,680	9,680	9,272	(408)
Intergovernmental	318,006	318,006	536,984	218,978
Charges for services	227,300	227,300	223,235	(4,065)
Fines and forfeits	2,000	2,000	141	(1,859)
Gifts and contributions	-	-	1,300	1,300
Investment earnings	60,000	60,000	50,638	(9,362)
Miscellaneous	499,557	499,557	479,077	(20,480)
<b>Total Revenues</b>	<b>\$ 3,632,132</b>	<b>\$ 3,632,132</b>	<b>\$ 3,754,278</b>	<b>\$ 122,146</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 201,431	\$ 201,431	\$ 202,907	\$ (1,476)
Courts	300	300	4,052	(3,752)
Law library	9,000	9,000	11,279	(2,279)
County coordinator	97,158	97,158	98,083	(925)
County auditor/treasurer	195,374	195,374	207,427	(12,053)
License bureau	70,880	70,880	85,651	(14,771)
County assessor	137,888	137,888	149,089	(11,201)
Elections	-	-	2,703	(2,703)
Accounting and auditing	46,000	46,000	59,757	(13,757)
Data processing	63,000	63,000	101,006	(38,006)
Attorney	76,446	76,446	79,083	(2,637)
Recorder	139,354	139,354	149,680	(10,326)
Buildings and plant	203,989	203,989	163,147	40,842
Veterans service officer	55,608	55,608	57,551	(1,943)
Unallocated	323,092	323,092	79,927	243,165
<b>Total general government</b>	<b>\$ 1,619,520</b>	<b>\$ 1,619,520</b>	<b>\$ 1,451,342</b>	<b>\$ 168,178</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 536,222	\$ 536,222	\$ 569,694	\$ (33,472)
Boat and water	3,000	3,000	2,077	923
Coroner	4,000	4,000	4,916	(916)
Enhanced 911 system	245,754	245,754	292,454	(46,700)
Jail	291,180	291,180	270,006	21,174
Probation officer	314,552	314,552	249,715	64,837
Civil defense	29,180	29,180	48,220	(19,040)
<b>Total public safety</b>	<b><u>\$ 1,423,888</u></b>	<b><u>\$ 1,423,888</u></b>	<b><u>\$ 1,437,082</u></b>	<b><u>\$ (13,194)</u></b>
<b>Sanitation</b>				
Solid waste	<b><u>\$ 109,542</u></b>	<b><u>\$ 109,542</u></b>	<b><u>\$ 118,267</u></b>	<b><u>\$ (8,725)</u></b>
<b>Health</b>				
Nursing service	\$ 89,638	\$ 89,638	\$ 79,340	\$ 10,298
Transportation	-	-	18,331	(18,331)
<b>Total health</b>	<b><u>\$ 89,638</u></b>	<b><u>\$ 89,638</u></b>	<b><u>\$ 97,671</u></b>	<b><u>\$ (8,033)</u></b>
<b>Culture and recreation</b>				
County fair	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Parks	10,691	10,691	7,887	2,804
Regional library	39,343	39,343	38,893	450
<b>Total culture and recreation</b>	<b><u>\$ 60,034</u></b>	<b><u>\$ 60,034</u></b>	<b><u>\$ 56,780</u></b>	<b><u>\$ 3,254</u></b>
<b>Conservation of natural resources</b>				
County extension	\$ 137,506	\$ 137,506	\$ 131,893	\$ 5,613
Soil and water conservation	140,779	140,779	100,779	40,000
Weed control	48,445	48,445	48,748	(303)
<b>Total conservation of natural resources</b>	<b><u>\$ 326,730</u></b>	<b><u>\$ 326,730</u></b>	<b><u>\$ 281,420</u></b>	<b><u>\$ 45,310</u></b>
<b>Economic development</b>				
Community development	<b><u>\$ 2,780</u></b>	<b><u>\$ 2,780</u></b>	<b><u>\$ 2,295</u></b>	<b><u>\$ 485</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 31,670	\$ (31,670)
Interest	\$ -	\$ -	\$ 6,931	\$ (6,931)
<b>Total Expenditures</b>	<b>\$ 3,632,132</b>	<b>\$ 3,632,132</b>	<b>\$ 3,483,458</b>	<b>\$ 148,674</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ 270,820	\$ 270,820
<b>Other Financing Sources (Uses)</b>				
Capital lease issued	-	-	33,227	33,227
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 304,047</b>	<b>\$ 304,047</b>
<b>Fund Balance - January 1</b>	<b>1,277,567</b>	<b>1,277,567</b>	<b>1,277,567</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,277,567</b>	<b>\$ 1,277,567</b>	<b>\$ 1,581,614</b>	<b>\$ 304,047</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,441,778	\$ 1,441,778	\$ 1,404,384	\$ (37,394)
Intergovernmental	3,524,477	3,524,477	5,664,024	2,139,547
Charges for services	140,000	140,000	195,768	55,768
Miscellaneous	85,000	85,000	39,680	(45,320)
<b>Total Revenues</b>	<b>\$ 5,191,255</b>	<b>\$ 5,191,255</b>	<b>\$ 7,303,856</b>	<b>\$ 2,112,601</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 533,761	\$ 533,761	\$ 517,327	\$ 16,434
Maintenance	1,293,325	1,293,325	1,372,523	(79,198)
Construction	1,291,462	1,291,462	4,578,473	(3,287,011)
Equipment maintenance and shop	572,323	572,323	470,069	102,254
Materials and services for resale	71,129	71,129	182,791	(111,662)
<b>Total highways and streets</b>	<b>\$ 3,762,000</b>	<b>\$ 3,762,000</b>	<b>\$ 7,121,183</b>	<b>\$ (3,359,183)</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	181,110	(181,110)
<b>Total Expenditures</b>	<b>\$ 3,762,000</b>	<b>\$ 3,762,000</b>	<b>\$ 7,302,293</b>	<b>\$ (3,540,293)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,429,255</b>	<b>\$ 1,429,255</b>	<b>\$ 1,563</b>	<b>\$ (1,427,692)</b>
<b>Fund Balance - January 1</b>	<b>878,772</b>	<b>878,772</b>	<b>878,772</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>2,966</b>	<b>2,966</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,308,027</b>	<b>\$ 2,308,027</b>	<b>\$ 883,301</b>	<b>\$ (1,424,726)</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 820,216	\$ 820,216	\$ 764,585	\$ (55,631)
Intergovernmental	582,821	582,821	801,122	218,301
Charges for services	-	-	1,898	1,898
Miscellaneous	35,085	35,085	202,142	167,057
<b>Total Revenues</b>	<b>\$ 1,438,122</b>	<b>\$ 1,438,122</b>	<b>\$ 1,769,747</b>	<b>\$ 331,625</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 385,358	\$ 385,358	\$ 636,401	\$ (251,043)
Social services	1,052,764	1,052,764	696,449	356,315
<b>Total Expenditures</b>	<b>\$ 1,438,122</b>	<b>\$ 1,438,122</b>	<b>\$ 1,332,850</b>	<b>\$ 105,272</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 436,897</b>	<b>\$ 436,897</b>
<b>Fund Balance - January 1</b>	<b>1,291,955</b>	<b>1,291,955</b>	<b>1,291,955</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,291,955</b>	<b>\$ 1,291,955</b>	<b>\$ 1,728,852</b>	<b>\$ 436,897</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 4**

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2009

**Governmental Activities**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 8,043,747	\$ 8,043,747	0.0%	\$ 2,117,166	379.9%

**Business-Type Activities**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 3,049,073	\$ 3,049,073	0.0%	\$ 1,278,309	239%

See Note 4.C. to the financial statements, "Other Postemployment Benefits," for more information.

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2009.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Jail/LEC Construction Capital Projects Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the Traverse County Auditor/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments. Encumbrance accounting is employed in governmental funds.

Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the Road and Bridge Special Revenue Fund by \$3,540,293. These expenditures in excess of budget were funded by greater than anticipated revenues in the Road and Bridge Special Revenue Fund.

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**SUPPLEMENTARY INFORMATION**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

The Building Special Revenue Fund is used to account for financial resources to be used for major repairs and construction of County buildings.

CAPITAL PROJECTS FUNDS

The Jail/LEC Capital Projects Fund is used to account for the financial resources used for the jail/law enforcement center.

DEBT SERVICE FUNDS

The Jail/LEC Debt Service Fund is used to account for the accumulation of resources and the payment of principal and interest of general obligation bonds for the jail/law enforcement center.

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Statement A-1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<b>Building Special Revenue</b>	<b>Jail/LEC Debt Service</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 542,197	\$ 210,159	\$ 752,356
Undistributed cash in agency funds	1,607	7,528	9,135
Taxes receivable			
Current	780	3,631	4,411
Prior	133	1,283	1,416
	<b>\$ 544,717</b>	<b>\$ 222,601</b>	<b>\$ 767,318</b>
<b>Total Assets</b>	<b>\$ 544,717</b>	<b>\$ 222,601</b>	<b>\$ 767,318</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Deferred revenue - unavailable	<b>\$ 819</b>	<b>\$ 4,459</b>	<b>\$ 5,278</b>
<b>Fund Balances</b>			
Reserved for debt service	\$ -	\$ 218,142	\$ 218,142
Undesignated	543,898	-	543,898
	<b>\$ 543,898</b>	<b>\$ 218,142</b>	<b>\$ 762,040</b>
<b>Total Fund Balances</b>	<b>\$ 543,898</b>	<b>\$ 218,142</b>	<b>\$ 762,040</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 544,717</b>	<b>\$ 222,601</b>	<b>\$ 767,318</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Building Special Revenue</u>	<u>Jail/LEC Capital Projects</u>	<u>Jail/LEC Debt Service</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ 39,677	\$ -	\$ 189,768	\$ 229,445
Intergovernmental	4,696	-	-	4,696
Miscellaneous	60,445	-	-	60,445
<b>Total Revenues</b>	<b>\$ 104,818</b>	<b>\$ -</b>	<b>\$ 189,768</b>	<b>\$ 294,586</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 7,948	\$ -	\$ -	\$ 7,948
<b>Capital outlay</b>				
Public safety	-	5,710	-	5,710
<b>Debt service</b>				
Principal	-	-	90,000	90,000
Interest	-	-	98,550	98,550
<b>Total Expenditures</b>	<b>\$ 7,948</b>	<b>\$ 5,710</b>	<b>\$ 188,550</b>	<b>\$ 202,208</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 96,870</b>	<b>\$ (5,710)</b>	<b>\$ 1,218</b>	<b>\$ 92,378</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 7,948	\$ -	\$ 80,155	\$ 88,103
Transfers out	-	(88,103)	-	(88,103)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 7,948</b>	<b>\$ (88,103)</b>	<b>\$ 80,155</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 104,818</b>	<b>\$ (93,813)</b>	<b>\$ 81,373</b>	<b>\$ 92,378</b>
<b>Fund Balance - January 1</b>	<b>439,080</b>	<b>93,813</b>	<b>136,769</b>	<b>669,662</b>
<b>Fund Balance - December 31</b>	<b>\$ 543,898</b>	<b>\$ -</b>	<b>\$ 218,142</b>	<b>\$ 762,040</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
BUILDING SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 62,939	\$ 62,939	\$ 39,677	\$ (23,262)
Intergovernmental	2,061	2,061	4,696	2,635
Miscellaneous	-	-	60,445	60,445
<b>Total Revenues</b>	<b>\$ 65,000</b>	<b>\$ 65,000</b>	<b>\$ 104,818</b>	<b>\$ 39,818</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Buildings and plant	-	-	7,948	(7,948)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 65,000</b>	<b>\$ 65,000</b>	<b>\$ 96,870</b>	<b>\$ 31,870</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	7,948	7,948
<b>Net Change in Fund Balance</b>	<b>\$ 65,000</b>	<b>\$ 65,000</b>	<b>\$ 104,818</b>	<b>\$ 39,818</b>
<b>Fund Balance - January 1</b>	<b>439,080</b>	<b>439,080</b>	<b>439,080</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 504,080</b>	<b>\$ 504,080</b>	<b>\$ 543,898</b>	<b>\$ 39,818</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
JAIL/LEC DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 196,088	\$ 196,088	\$ 189,768	\$ (6,320)
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 90,000	\$ 90,000	\$ 90,000	\$ -
Interest	98,550	98,550	98,550	-
<b>Total Expenditures</b>	<b>\$ 188,550</b>	<b>\$ 188,550</b>	<b>\$ 188,550</b>	<b>\$ -</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 7,538</b>	<b>\$ 7,538</b>	<b>\$ 1,218</b>	<b>\$ (6,320)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	80,155	80,155
<b>Net Change in Fund Balance</b>	<b>\$ 7,538</b>	<b>\$ 7,538</b>	<b>\$ 81,373</b>	<b>\$ 73,835</b>
<b>Fund Balance - January 1</b>	<b>136,769</b>	<b>136,769</b>	<b>136,769</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 144,307</b>	<b>\$ 144,307</b>	<b>\$ 218,142</b>	<b>\$ 73,835</b>



**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**AGENCY FUNDS**

The School Districts Fund is used to account for the collection and payment of funds due to school districts.

The State Revenue Fund is used to account for the state's share of collections and their payment to the state.

The Taxes and Penalties Fund is used to account for the collection and payment to the various taxing districts of taxes and penalties collected.

The Towns and Cities Fund is used to account for the collection and payment of funds due to towns and cities and special taxing districts.

The Traverse County Connections Fund is used to account for the receipt and payment of federal, state, and local grants and membership contributions for the Children's Mental Health and Family Services Collaborative.

The Communities United in Partnership Fund is used to account for the receipt of a grant from the Blandin Foundation for projects in the Cities of Browns Valley, Dumont, Tintah, and Wheaton.

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Statement B-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 970,491	\$ 968,932	\$ 1,559
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 970,491	\$ 968,932	\$ 1,559
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 19,687	\$ 442,374	\$ 436,845	\$ 25,216
<b><u>Liabilities</u></b>				
Due to other governments	\$ 19,687	\$ 442,374	\$ 436,845	\$ 25,216
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 60,251	\$ 3,040,729	\$ 3,016,980	\$ 84,000
<b><u>Liabilities</u></b>				
Due to other governments	\$ 60,251	\$ 3,040,729	\$ 3,016,980	\$ 84,000

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

***Statement B-1  
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 1,745,393	\$ 1,726,776	\$ 18,617
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 1,745,393	\$ 1,726,776	\$ 18,617
 <b><u>TRAVERSE COUNTY CONNECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 40,391	\$ 26,921	\$ 31,771	\$ 35,541
Due from other funds	-	5,343	-	5,343
<b>Total Assets</b>	<b>\$ 40,391</b>	<b>\$ 32,264</b>	<b>\$ 31,771</b>	<b>\$ 40,884</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 40,391	\$ 32,264	\$ 31,771	\$ 40,884
 <b><u>COMMUNITIES UNITED IN PARTNERSHIP</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 11,663	-	-	\$ 11,663
<b><u>Liabilities</u></b>				
Due to other governments	\$ 11,663	-	-	\$ 11,663

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Statement B-1**  
**(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 131,992	\$ 6,225,908	\$ 6,181,304	\$ 176,596
Due from other funds	-	5,343	-	5,343
<b>Total Assets</b>	<b><u>\$ 131,992</u></b>	<b><u>\$ 6,231,251</u></b>	<b><u>\$ 6,181,304</u></b>	<b><u>\$ 181,939</u></b>
<b><u>Liabilities</u></b>				
Due to other governments	<b><u>\$ 131,992</u></b>	<b><u>\$ 6,231,251</u></b>	<b><u>\$ 6,181,304</u></b>	<b><u>\$ 181,939</u></b>

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## **OTHER SCHEDULES**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 7*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2009**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
<b>Cash and Pooled Investments</b>			
Cash on hand	-	-	\$ 1,650
Noninterest-bearing checking (three)	-	Continuous	1,168,378
Interest-bearing checking (three)	0.05 to 0.37	Continuous	62,504
Money market savings (three)	0.30 to 1.66	Continuous	3,895,173
Certificates of deposit (six)	1.00 to 2.50	March 3, 2010 to December 1, 2010	488,740
Mutual funds (two)	1.00 to 2.18	Continuous	41,944
U.S. Treasury strip	-	August 15, 2013	200,781
Federal Home Loan Mortgage Corporation (two)	3.07 to 4.12	March 12, 2024 to April 17, 2024	199,428
Broker-held money markets (two)	0.02 to 0.50	Continuous	4,828
<b>Total Cash and Pooled Investments</b>			<b><u><u>\$ 6,063,426</u></u></b>
<b>Investments from Funds</b>			
<b>General Fund</b>			
Certificates of deposit (two)	0.32 to 2.00	February 2, 2010 to November 19, 2010	<b><u><u>\$ 97,926</u></u></b>
<b>Traverse Care Center Enterprise Fund</b>			
Interest-bearing checking (two)	0.05 to 0.15	Continuous	\$ 42,944
Certificates of deposit (three)	1.69 to 2.00	January 8, 2010 to December 31, 2010	50,904
<b>Total Traverse Care Center Enterprise Fund</b>			<b><u><u>\$ 93,848</u></u></b>
<b>Total Investments from Funds</b>			<b><u><u>\$ 191,774</u></u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 8*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Shared Revenue**

**State**

Highway users tax	\$ 3,894,224
Program aid	138,215
Market value credit (MVC)	126,117
Mobile home MVC	394
MVC - agricultural	73,957
PERA rate reimbursement	16,482
Disparity reduction aid	18,586
Police aid	22,504
	22,504

**Total shared revenue** **\$ 4,290,479**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 98,530
	98,530

**Payments**

**Local**

Local contributions	\$ 104,140
Payments in lieu of taxes	20,418
	20,418

**Total payments** **\$ 124,558**

**Grants**

**State**

Minnesota Department/Board of	
Examining Boards	\$ 2,775
Corrections	18,701
Public Safety	75,745
Natural Resources	627
Human Services	198,319
Water and Soil Resources	43,994
Office of Environmental Assistance	55,475
	55,475

**Total state** **\$ 395,636**

**Federal**

Department of	
Agriculture	\$ 51,907
Transportation	1,641,761
Health and Human Services	351,233
Homeland Security	52,722
	52,722

**Total federal** **\$ 2,097,623**

**Total state and federal grants** **\$ 2,493,259**

**Total Intergovernmental Revenue** **\$ 7,006,826**



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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

*Schedule 9*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Traverse County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Traverse County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Traverse County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Traverse County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - Highway Planning and Construction Cluster
  - Highway Planning and Construction CFDA #20.205
  - Highway Planning and Construction - ARRA CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Traverse County was not determined to be a low-risk auditee.

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-3 Segregation of Duties

Due to the limited number of personnel within Traverse County, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Traverse County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Without proper segregation of duties, errors or irregularities may not be detected timely.

We recommend that the County's management be aware of the lack of segregation of the accounting functions and, wherever possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

*Traverse County is aware of a lack of segregation of some accounting functions. County management will explore oversight procedures to ensure that staff is implementing internal control policies and procedures.*

06-2 Preparation of Financial Statements

Traverse County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Traverse County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend Traverse County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Traverse County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

*The County will continue to train employees and develop expertise to enable the County to internally prepare its annual financial statements in accordance with GAAP.*

06-3 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will be prevented, or detected and corrected, on a timely basis.

During our audit, we identified several material adjustments.

Adjustments were made to the Prairieview Place Enterprise Fund to correct client reversal entries that should not have been made. The material corrections to reversal entries include: correcting a reversal the client made on a prior year audit entry to reclassify a \$35,000 bond payment from a nonoperating expenditure account to a reduction of the general obligation bonds payable liability account; correcting a reversal entry the client made on a prior year audit entry in the amount of \$50,000 made to eliminate transfers between funds that are grouped together for financial statement purposes; and correcting a reversal entry the client made on a prior year audit adjustment necessary to record depreciation in the amount of \$46,435 on capital assets for 2008. A material adjustment was also made to record depreciation in the amount of \$46,435 for 2009.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. However, the inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements will not be fairly presented.

We recommend the County establish review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

Client's Response:

*The County will establish review procedures to ensure all entries to the system are done correctly.*

08-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the County may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.



At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing;
- payroll; and
- inventories.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

*The Traverse County Auditor has set up a committee of department heads to assess and document the significant internal controls in its accounting system. The group will decide if the controls in place are adequate or if they need to be changed. We will periodically revisit these controls as changes in the control environment occur.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Information System Risk Management (08-2)**

Traverse County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide computer hardware for hosting the County's applications; processing of accounting transactions of other data; daily, weekly, and full system backups of applications and processed data; and disaster recovery planning for continued operations. During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers were in an unlocked cage. Daily backup tapes for information processed Monday through Thursday were kept onsite in a locked metal cabinet;

however, the cabinet was not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information was kept at an offsite location.

**Resolution**

CPUI now has a Sentry Safe that protects up to 1,700 degrees. If necessary, the safe could be extracted through a nearby window in the event of a fire. In addition, the CPUI office now has two fire extinguishers, and computers are maintained in a locked storage room overnight.

**Capital Asset Inventory (08-3)**

Traverse County maintains a centralized record of capital asset valuations and related depreciation. During our audit, we noted several departments were not aware of procedures for reporting capital asset changes, several departments do not perform an annual inventory of capital assets, and many of the assets are not tagged to indicate they are assets of the County.

**Resolution**

The County Auditor/Treasurer has created a spreadsheet for department staff to track any changes in capital assets. This spreadsheet is considered their inventory and is provided to the Auditor/Treasurer for adjusting the centralized record. The Auditor/Treasurer has also been working with the departments to tag all assets above the capitalization policy.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

**Collateral Pledged to Secure Deposits (07-1)**

At December 31, 2008, deposits with State Bank of Wheaton exceeded the amount of federal deposit insurance and collateral pledged by \$295,160. As required by Minn. Stat. § 118A.03, subd. 3, “[t]he total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution’s banking day.”

**Resolution**

Deposits at all four of the banks used by Traverse County were fully protected at December 31, 2009. The Auditor/Treasurer has increased the collateral to secure deposits at two of the banks and has stated that he now monitors deposits and the market values of pledged collateral to ensure that County funds are fully protected.

**Administrative Citation Procedures (08-4)**

The Traverse County Board approved the implementation of an Administrative Offense Procedures Ordinance on October 21, 2008. Prior to the 2009 legislative session, Minn. Stat. § 169.022 clearly provided, and a Minnesota Attorney General's Opinion concluded, that local public entities did not have authority to issue administrative tickets for state traffic offenses.

**Resolution**

Traverse County discontinued issuing administrative citations effective August 1, 2009.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-5 Prairieview Place Net Assets

The Prairieview Place Enterprise Fund had a net asset deficit of \$198,399 at December 31, 2009. Prairieview Place has always maintained a deficit financial condition resulting from the costs of borrowing to finance the construction of the congregate housing project.

The net asset deficit increased by \$5,711 in 2009; net operating income of \$46,208 and nonoperating income of \$81 were offset by nonoperating expenses of \$52,000 interest expense on the debt.

We recommend that the County Board monitor the operations of the Prairieview Place Enterprise Fund to determine that the income is sufficient for management control and maintenance of this facility.

Client's Response:

*The County Board will monitor the operations of Prairieview Place to determine that income is sufficient for management control and maintenance of the facility. The County Board is currently in the process of looking at their options, including the possibility of leasing the facility.*

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of County Commissioners  
Traverse County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 2, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Traverse Care Center Enterprise Fund, as described in our report on Traverse County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Traverse County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-3 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-3, 06-2, and 08-1 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Traverse County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.



The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Traverse County does not have tax increment financing districts.

The results of our tests indicate that, for the items tested, Traverse County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to Traverse County, and they are reported for that purpose.

Traverse County's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Traverse County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 2, 2010

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REBECCA OTTO  
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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Traverse County

### Compliance

We have audited the compliance of Traverse County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. Traverse County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Traverse County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Traverse County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

#### Internal Control Over Compliance

Management of Traverse County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of and for the year ended December 31, 2009, and have issued our report thereon dated December 2, 2010. We did not audit the financial statements of the Traverse Care Center Enterprise Fund. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on Traverse County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 2, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 51,208
State Administrative Matching Grants for SNAP -- ARRA	10.561	699
<b>Total U.S. Department of Agriculture</b>		<b>\$ 51,907</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 302,677
Highway Planning and Construction -- ARRA	20.205	1,365,783
<b>Total U.S. Department of Transportation</b>		<b>\$ 1,668,460</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 163
Temporary Assistance for Needy Families	93.558	47,712
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	69,097
Child Support Enforcement -- ARRA	93.563	6,488
Refugee and Entrant Assistance - State-Administered Programs	93.566	150
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		
Child Welfare Services - State Grants	93.596	1,420
Foster Care Title IV-E Cluster	93.645	3,212
Foster Care Title IV-E	93.658	30,292
Foster Care Title IV-E -- ARRA	93.658	2,373
Social Services Block Grant	93.667	52,501
Chafee Foster Care Independence Program	93.674	740
Medical Assistance Program	93.778	128,540
Block Grants for Community Mental Health Services	93.958	215
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 342,903</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Flood Mitigation Assistance	97.029	\$ 9,100
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	20,015
Emergency Management Performance Grants	97.042	23,607
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 52,722</b>
<b>Total Federal Awards</b>		<b>\$ 2,115,992</b>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Traverse County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Traverse County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Traverse County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Traverse County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,097,623
Grants received more than 60 days after year-end, deferred in 2009	
Highway Planning and Construction	104,410
Foster Care Title IV-E -- ARRA	35
Child Support Enforcement	2,100
Grants deferred in 2008, recognized as revenue in 2009	
Highway Planning and Construction	(77,711)
Medical Assistance Program	(10,465)
	(88,631)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 2,115,992

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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5. Subrecipients

Of the expenditures presented in the schedule, Traverse County did not pass any federal awards to subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.